



# 2006 GOVERNOR'S CONFERENCE

*Economic Outlook and Business Implications*

*Gene Huang, FedEx*

*September 12, 2006*



**MISSION:  
POSSIBLE**

*Invent the Future*



## *Current macro conditions*

### ***The Fed's summary\****

Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.

*\* Federal Open Market Committee, August 8, 2006*





## *Current macro conditions*

### **Three near-term themes\*:**

Slower growth in the U.S. at solid pace

Continued resilience elsewhere in the world

Increased volatility and higher risk premia

*\* Based on market consensus from economic community*





## Current macro conditions

***Plateau in cumulative strength at the moment... - Mid-***

Cycle	2001				2002				2003				2004				2005				2006		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
GDP QOQ	(0.5)	1.2	(1.4)	1.6	2.7	2.2	2.4	0.2	1.2	3.5	7.5	2.7	3.8	4.0	3.1	2.6	3.4	3.3	4.2	1.8	5.6	2.9	
GDP YOY	1.9	0.6	0.4	0.2	1.0	1.3	2.2	1.9	1.5	1.8	3.1	3.7	4.3	4.5	3.4	3.4	3.3	3.1	3.4	3.1	3.7	3.6	
Consumption	2.9	2.5	2.0	2.8	2.8	3.1	3.2	1.9	2.0	2.3	3.2	3.4	4.1	3.9	3.5	4.0	3.5	3.8	3.8	2.9	3.4	3.0	
Ind Production	(1.0)	(3.5)	(4.5)	(5.3)	(2.9)	(0.2)	1.5	2.3	1.8	(0.6)	(0.1)	1.5	2.6	4.9	4.5	4.3	3.9	3.0	2.8	3.0	3.3	4.5	
Recession				Rebound and Recovery												Mid Cycle							

Sources: BEA, Fed. Consumption and IP are in YOY%.





*Current macro conditions*

## **Characteristics of a Mid-Cycle environment:**

**G**rowth slowdown toward more sustainable pace

**H**igher inflation & costs (labor, material, financing)

**S**till supportive monetary and credit environment

**A**ctive M&A activities

**C**ontinued tightening in the labor market

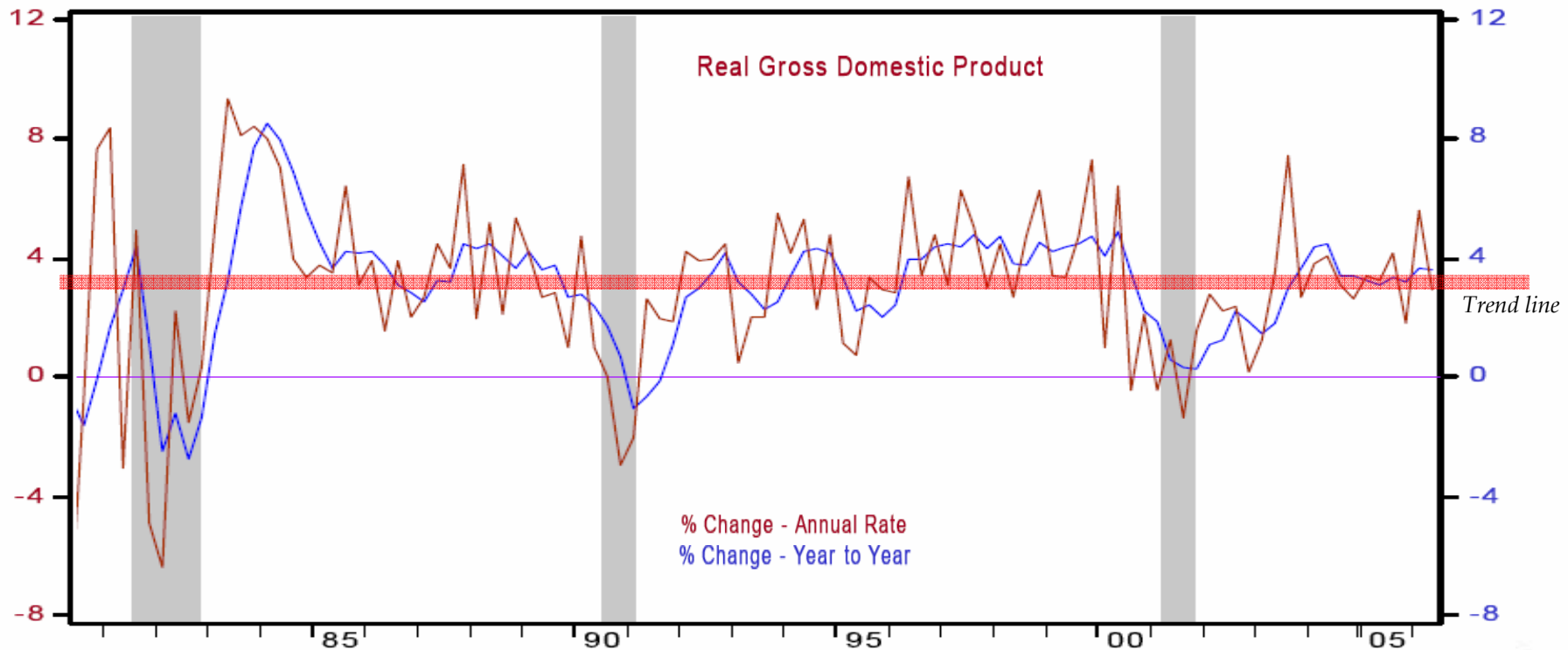
**N**ormally a few inventory-adjustment mini cycles







## *The tricky deal of soft-landing:*



Source: Bureau of Economic Analysis /Haver Analytics

09/06/06

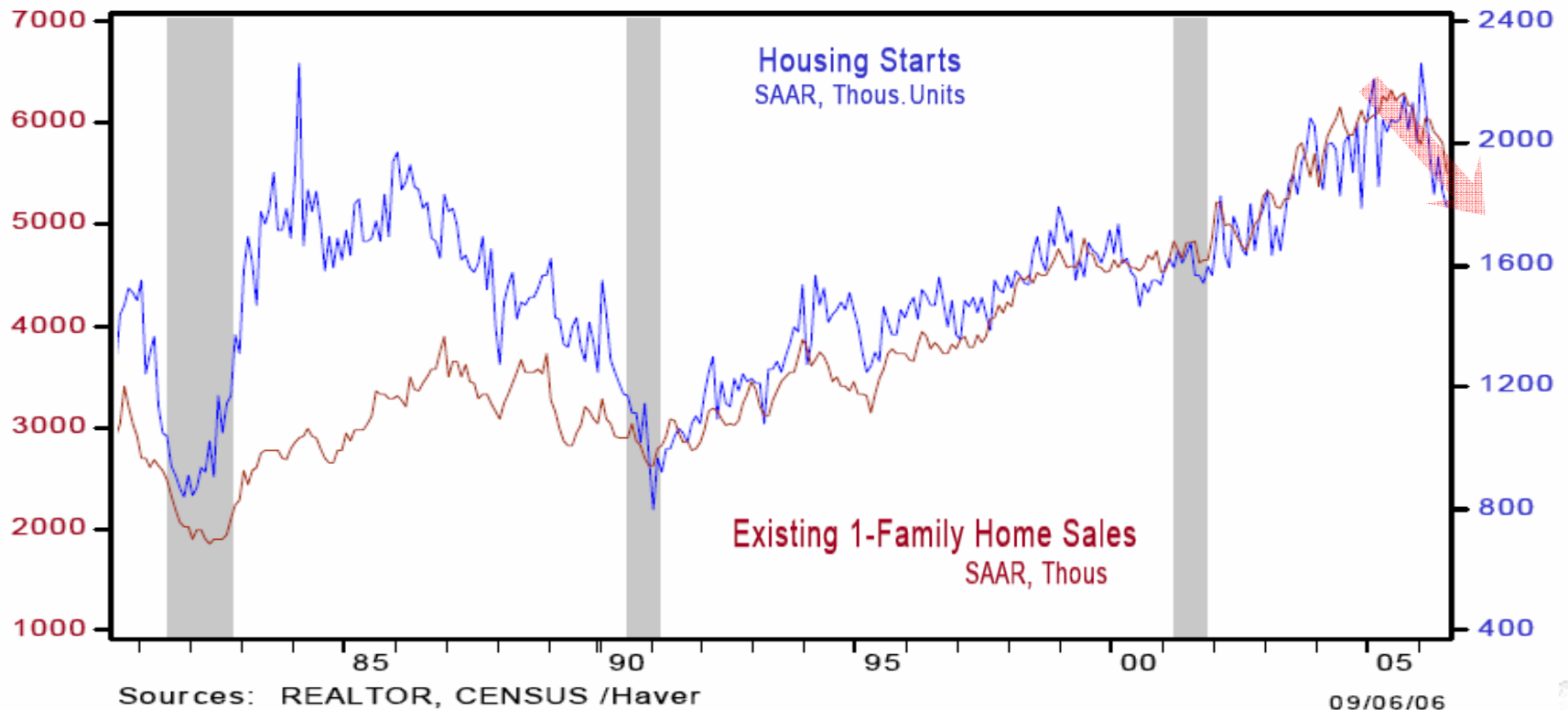
**MISSION:**  
**POSSIBLE**  
Invent the Future





# The housing market

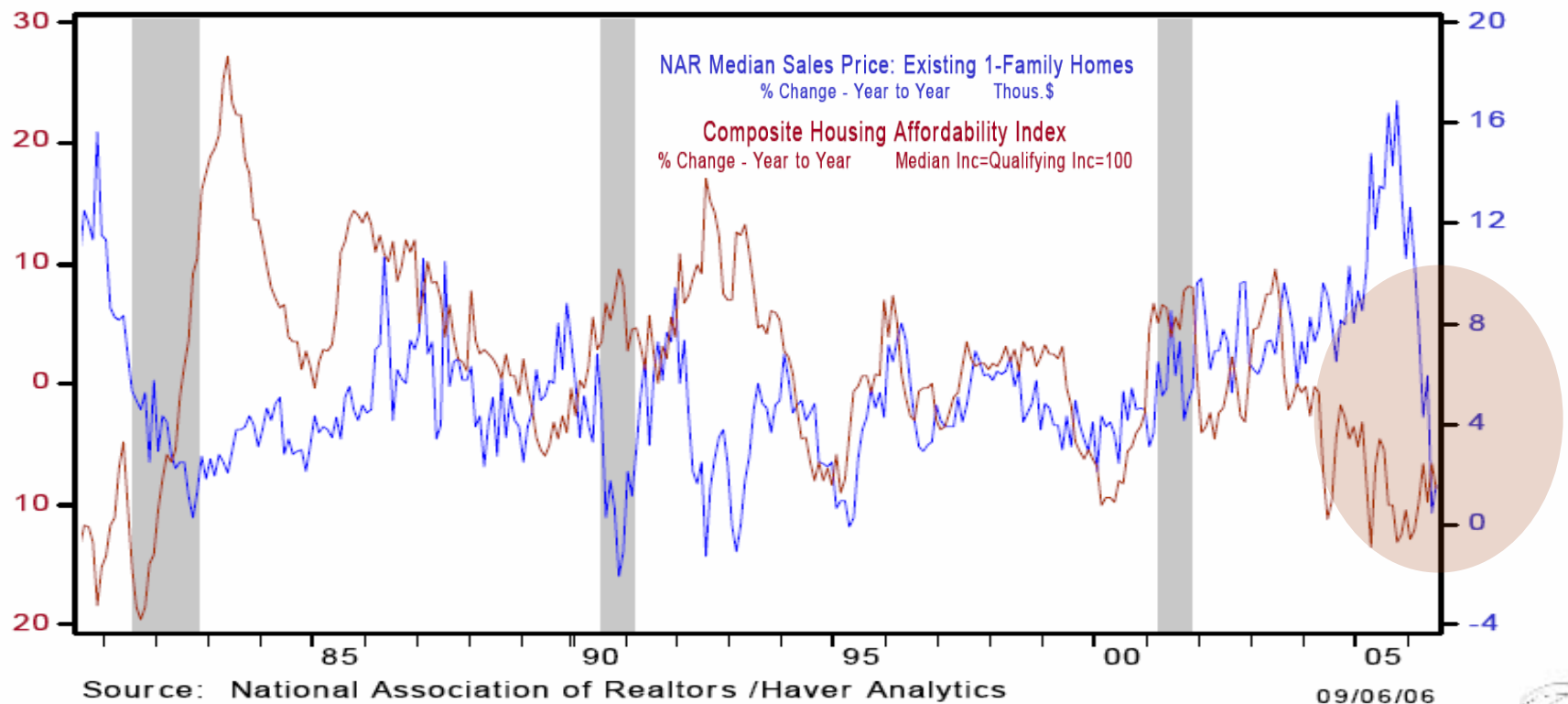
## A gradual cooling of the housing market (in unit):





# The housing market

## A gradual cooling of the housing market (in price):

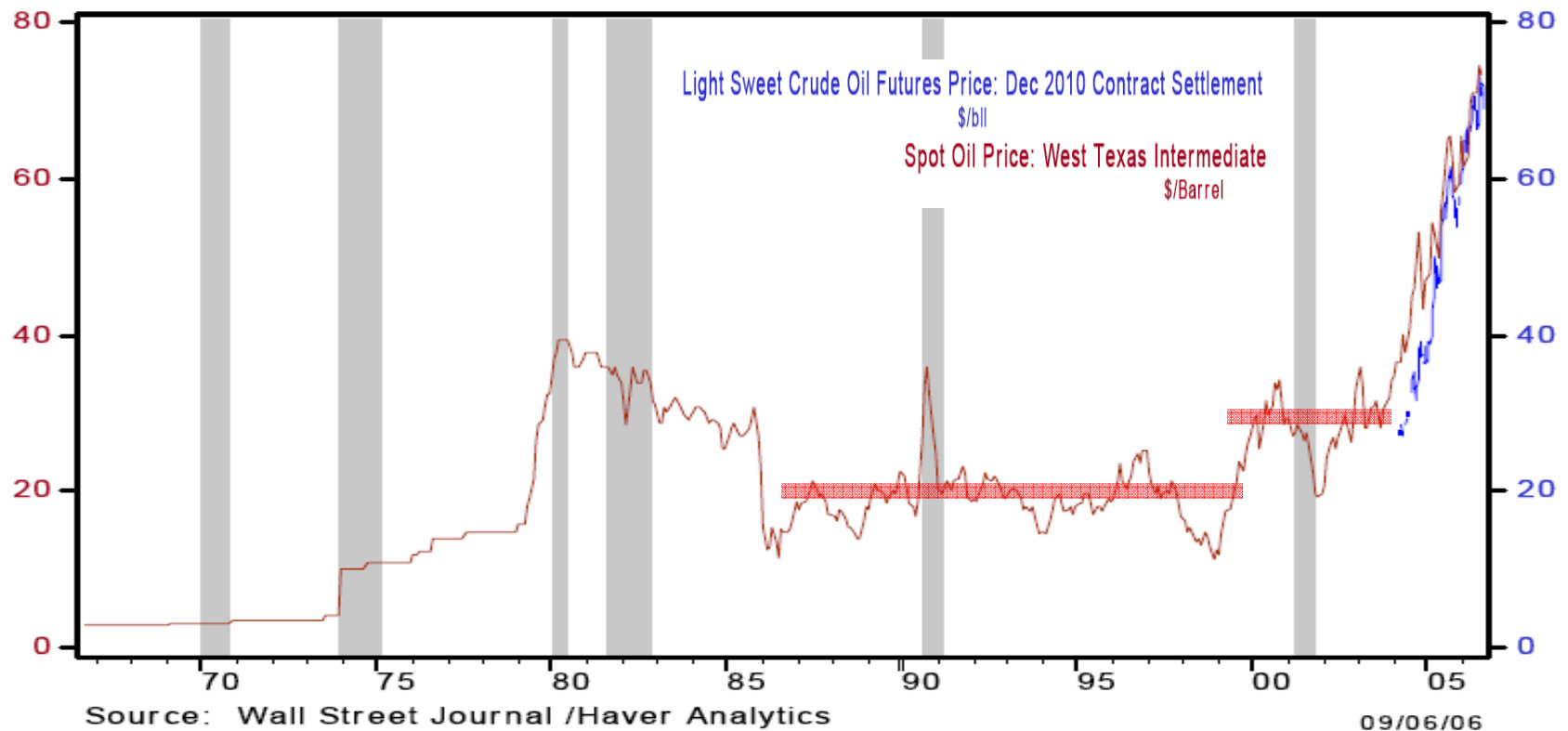






# The oil market

## What has happened since mid-2004?



**MISSION:  
POSSIBLE**  
Invent the Future





## Global macro trend

### Trade deepening



Source: Economist Intelligence Unit /Haver Analytics

09/06/06

**MISSION:  
POSSIBLE**  
Invent the Future





## *Global macro trend*

### *Global integration*



“Perhaps the clearest conclusion is that new technologies that reduce the costs of transportation and communication have been a major factor supporting global economic integration.”

“Distance is an elastic concept.”

“Substantial productivity gains can often be achieved through the development of global supply chains.”

-- Ben Bernanke, August 25, 2006, Jackson Hole, WY





## *Global macro trend*

### **Global integration**

The scale and pace of the current episode is unprecedented.

The traditional distinction between the core and the periphery is becoming increasingly less relevant, as the mature industrial economies and the emerging-market economies become more integrated and interdependent.

Production processes are becoming geographically fragmented to an unprecedented degree.

International capital markets have become substantially more mature.

-- Ben Bernanke, August 25, 2006, Jackson Hole, WY





*Global macro trend*

**Three stages of economic development ladder:**

Infrastructure and commodities

***BRICs***

Consumer durables

***Developed countries***

Capital market

Along with economic development,  
consumption culture will gradually form and  
strengthen in BRIC countries.

***MISSION:  
POSSIBLE***  
*Invent the Future*

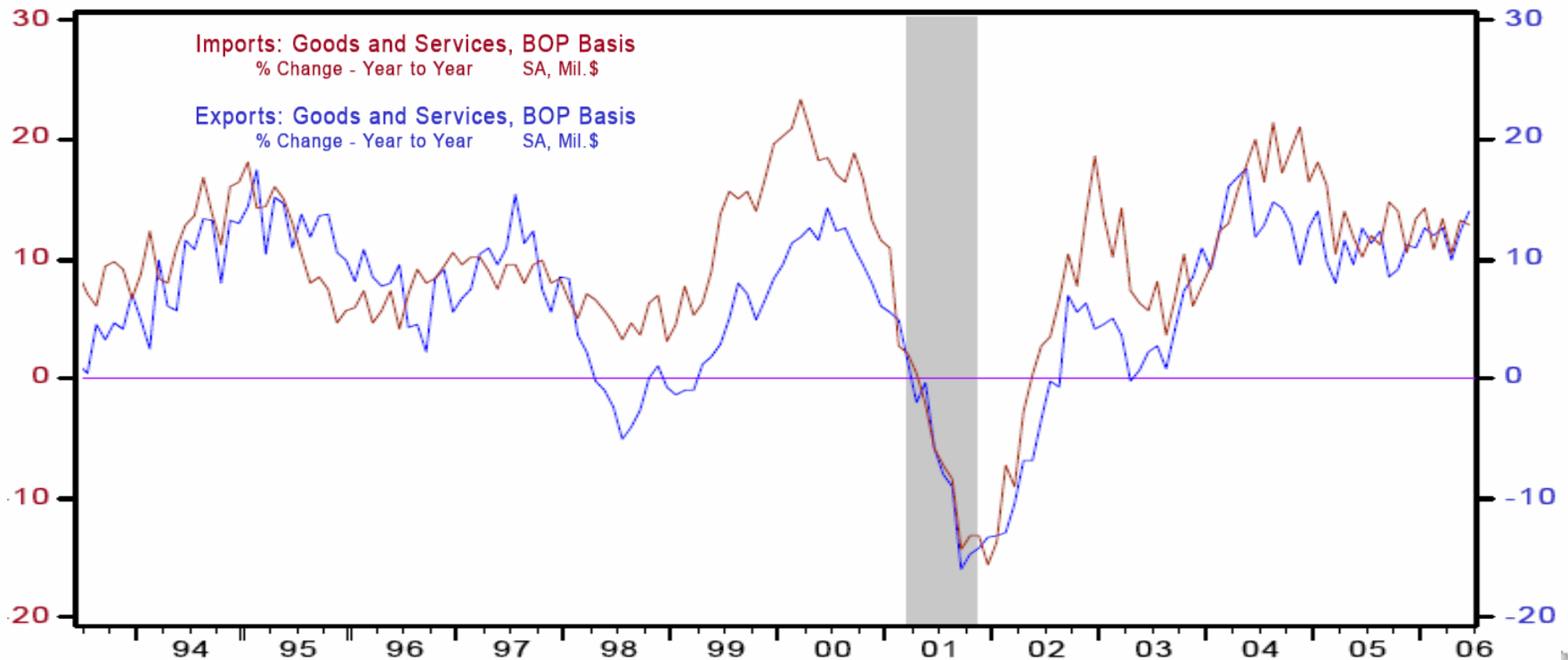






## U.S. trade activities

### U.S. Exports & Imports (size: exports \$1.4 tri; imports \$2.2 tri)



Source: Census Bureau /Haver Analytics

09/06/06

**MISSION:  
POSSIBLE**  
Invent the Future



# Global macro conditions

## Dual engines plus more synchronized participation



**MISSION:  
POSSIBLE**  
Invent the Future



## ***U.S. trade structure***

### ***U.S. Trade Structure***

Top 10 Exports by Commodity 2003 (by share of exports)		Top 10 Trading Partners 2004	
		(by share of exports)	(by share of imports)
Semi-conductors, Electronic Tubes, etc.	8.0	Canada	23.0
Office and Computing Machinery	6.7	Mexico	13.6
Aircraft	5.3	Japan	6.7
Parts of Motor Vehicles	5.3	United Kingdom	4.4
Professional Equip.	4.8	China	4.3
Motor Vehicles	4.4	Germany	3.8
Goods not classified by kind	4.3	South Korea	3.2
Machinery and Equip., nec.	3.9	Netherlands	3.0
Other Manufacturing, nes.	3.8	France	2.6
Other Communications Equip.	3.6	Singapore	2.4
		Canada	17.1
		China	13.7
		Mexico	10.4
		Japan	8.8
		Germany	5.2
		South Korea	3.2
		United Kingdom	3.1
		France	2.2
		Malaysia	1.9
		Italy	1.9

Source: The Commerce Department







## *Tennessee trade structure*

### *Tennessee Trade Structure*

Top 10 Exports by Commodity 2005 (by share of exports)		Top 10 Trading Partners 2005			
		(by share of exports)		(by share of imports)	
Transportation Equipment	22.5	Canada	32.2	Malaysia	44.3
Computer/Electronic Prdts	14.9	Mexico	9.8	Canada	31.9
Chemical Manufactures	12.7	China	7.4	China	5.2
Misc Mfg Commodities	8.6	Japan	4.3	United Kingdom	2.9
Agricultural Products	8.5	UK	3.9	Mexico	2.7
Machinery ex Electrical	7.8	Germany	3.6	France	2.6
Plastics & Rubber Prdcts	3.3	Australia	2.2	Germany	2.1
Primary Metal Mfg	2.9	South Korea	2.1	Taiwan	1.1
Paper Products	2.9	Belgium	2.0	Sweden	1.0
Electrl Eq, Appl & Comp	2.8	Hong Kong	1.7	Ireland	1.0

Source: The Commerce Department





## *Tennessee vs. the U.S.*

### Employment (NAICS)

	TN	US
Total Non-Agricultural	100	100
Construction & Mining	4.5	5.9
Manufacturing	14.2	10.7
Trade, Trans, & Utilities	21.9	19.4
Information	1.7	2.3
Financial Activities	5.1	6.1
Prof & Business Svcs	11.5	12.6
Educ & Health Services	12.2	13.0
Leisure & Hospitality	9.9	9.6
Other Services	3.8	4.0
Government	15.0	16.3

### *TN's higher exposure to the goods sector of the economy implies*

- (1) Slightly more cyclical than the national economy as a whole
- (2) More impact and potential benefit from global integration



## *Concluding remarks*

### *Mission possible:*

Economic and business practitioners have been and will continue to be creating models for the world to follow.



**MISSION=**   
**POSSIBLE**  
*Invent the Future*